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Will California Meet the TANF Maintenance-of-Effort Requirement?

What Is the Maintenance-of-Effort (MOE) Requirement?

Federal welfare reform replaced the Aid to Families with Dependent Children (AFDC) program with the Temporary Assistance for Needy Families (TANF) block grant program.

California implemented TANF through enactment of AB 1542, which established the California Work Opportunity and Responsibility to Kids (CalWORKs) Program. In order for California to receive its $3.7 billion in federal block grant funds, it must spend, from state and local sources, at least 80 percent of the amount it spent on AFDC during federal fiscal year (FFY) 1994. (The MOE is 75 percent, if the state meets specified work participation rates.)

California's combined state and local expenditures during FFY 1994 were $3.6 billion, so the 80 percent and 75 percent MOE levels are $2.9 billion and $2.7 billion, respectively. Because California is not likely to meet the federal work participation standards pertaining to two-parent families, the 80 percent MOE level will probably be applicable for 1997-98. In fact, the budget was designed to meet the 80 percent MOE, as discussed below.

MOE Expenditures in the 1997-98 Budget. Caseload declines and grant reductions that occurred in the AFDC program since FFY 1994 would have brought state and local spending below the MOE in 1997-98, absent budget augmentations. With this in mind, the Legislature provided just enough state spending for welfare reform to meet the 80 percent MOE level, as estimated by the state Department of Social Services (DSS). We note, however, that two actions not assumed in the DSS estimate could bring state and local spending to $69 million above the 80 percent MOE floor: (1) a recent change in federal law allows spending for the child support disregard to count toward the MOE, and (2) the state can count the funds spent on TANF recipients in the new state-only food stamps program for certain noncitizens. Figure 1 (see page 2) shows MOE spending, including these adjustments.

Threats to MOE Spending

While this estimate indicates that California is approximately $69 million above the MOE, actual spending may be less than anticipated for several reasons. Below we discuss why spending may be lower and what actions the state could take to avoid falling below the MOE.

Caseload Reduction. TANF caseloads appear to be declining faster than projected in the budget. In June 1997, the caseload declined by 2 percent in *one month*, a significantly greater reduction than subsumed in the 10 percent *annual* caseload reduction estimated for 1997-98. Thus, total spending in the TANF program is likely to be lower than budgeted due to caseload declines.

The state can address this potential MOE problem by directing counties to spend the budgeted state and county funds to meet the $2.9 billion MOE requirement, while reducing *federal* TANF block grant funds to reflect the additional caseload decline. This would not result in a loss of funds to the state because unexpended federal TANF funds can be carried over to subsequent fiscal years.

Slower County Implementation. The budget includes approximately $220 million in additional funding for CalWORKs employment services. The budget assumes counties will begin serving new applicants and phasing in existing recipients in January 1998. Although counties could begin the program prior to January 1998, AB 1542 gives them the flexibility to start as late as April 1998. The potential for slower county implementation resulting in lower MOE spending could be mitigated by instructing counties to expend state funds prior to expending federal funds.

Figure 1

California's Maintenance-of-Effort Spending 1997-98

(In Millions)

General Fund in the Department of Social Services	$2,351
General Fund in other departments	342
County spending	222
$50 child support disregard	41
State-only food stamps for TANF[a] recipients	28
Total	$2,984
MOE requirement	$2,915
Amount over MOE	**$69**

[a] Temporary Assistance for Needy Families.

Spending in Other Departments May Not Materialize. The DSS estimates that $342 million in spending by departments other than DSS will count towards meeting the MOE requirement. Figure 2 provides detail on the projected MOE spending in these departments. The figure shows that much of these non-DSS expenditures are for child care. The figure also shows that $40 million of these non-DSS expenditures have not been specifically identified.

The MOE spending by the other departments may be less than estimated because of (1) expenditures that do not meet federal criteria for approval, and/or (2) actual spending on TANF recipients being less than estimated in the budget. Any such shortfalls cannot be mitigated by spending state funds prior to federal funds because these programs do not receive federal block grant funds.

Figure 2

Maintenance-of-Effort Spending Departments Other Than Social Services 1997-98

(In Millions)

State Department of Education (SDE)	
Adult education for TANF-eligibles	$25
Growth in child care for TANF-eligibles	32
Child care augmentation	28
State match for the CCDBG[a]	93
Child care facilities	6
Community Colleges	75
Employment Development Department, SDE and Community College funds for education and training[b]	23
Employment Training Panel Fund	20
Other departments (not specifically identified)	40
Total	**$342**

[a] Child Care Development Block Grant
[b] These funds were used for federal match under the former Greater Avenues for Independence (GAIN) program.

Conclusion

Based on our adjustments to the DSS estimate, California is projected to be $69 million above the TANF MOE requirement in 1997-98.

We have identified several threats, however, that could bring actual spending below the MOE. Although the impact of TANF caseload declines and slower county implementation of the CalWORKs program can be mitigated by spending state and county funds before federal TANF funds, allowable spending in state departments other than DSS could turn out to be less than anticipated and therefore poses the most significant threat. We note that federal regulations on what constitutes an allowable MOE expenditure have not been issued. Finally, because the next state fiscal year begins three months before the FFY ends on September 30, 1998, California could meet the MOE requirement, if necessary, by increasing spending in the first quarter of 1998-99. If the federal administration ultimately determined that a state does not comply with the MOE requirement, it would result in a reduction in the federal block grant and a requirement that the state backfill the reduction with state funds.

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$2.5 Billion Deal Funds Toll Bridge Seismic Retrofit

Background

Following the collapse of a portion of the San Francisco-Oakland Bay Bridge in the 1989 Loma Prieta earthquake, the Department of Transportation (Caltrans) determined that a major retrofit program would be needed to make the state's toll bridges more resistant to earthquake damage. Caltrans estimated that retrofit of seven state toll bridges would cost a total of $650 million. In 1996, voters passed the Seismic Retrofit Bond Act (Proposition 192) which provided $2 billion to retrofit state highways and bridges, including $650 million specifically for toll bridge retrofit. However, the cost to retrofit toll bridges soon rose to about $2.5 billion, and additional funding was needed to allow retrofit to proceed.

Funding Package Passed. In August 1997, the Legislature passed, and the Governor signed into law, two bills intended to fully fund toll bridge seismic retrofit. The two enacted bills, SB 60 (Kopp, Chapter 327, Statutes of 1997) and SB 226 (Kopp, Chapter 328, Statutes of 1997), identify the sources of retrofit funding. One additional bill (AB 1302, Wayne) that contains provisions relating to retrofit of the San Diego-Coronado Bridge was awaiting the Governor's signature at the time this analysis was prepared. The key features of the funding package are:

- The funding package provides full funding for the $2.5 billion estimated cost to bring all state-owned toll bridges up to seismic standards.
- The source of funds is split roughly equally between Proposition 192 bond funds, state transportation funds, and bridge tolls.
- About two-thirds of the funding package relies on existing revenues, with the remainder coming from new revenues generated by a $1 toll surcharge on Bay Area toll bridges.
- The funding package assumes a basic design for the new Bay Bridge east span; any additional costs due to design amenities will be paid entirely from toll funds.
- If total program costs exceed current estimates for reasons *other* than design amenities on the Bay Bridge east span, Caltrans will inform the Legislature and recommend a funding plan.

Bridge Retrofit and Replacement Planned. Caltrans will strengthen seven toll bridges to increase their ability to withstand earthquake forces without sustaining major damage. Figure 1 lists these bridges and the estimated retrofit costs. Caltrans has determined that two bridges—the west span of the Carquinez Bridge, and the eastern span of the Bay Bridge—cannot be economically retrofitted and should instead be replaced with new bridges. Replacement of the western Carquinez span was already planned and funded from bridge tolls prior to the retrofit program, thus its $320 million cost is not counted as part of the retrofit program.

Figure 1 shows that the replacement of the Bay Bridge east span is the single largest cost component. Caltrans estimates that it will cost $1.2 billion to design and construct a new span using a basic concrete viaduct design. However, a design review commission headed by the Bay Area Metropolitan Transportation Commission (MTC) prefers a design that includes an overhead cable suspension supported by a single tower. Caltrans estimates that this design would increase the cost by about $80 million, and other design amenities—such as addition of a bicycle lane, or improvements to the Transbay Terminal (located in San Francisco)—could further increase the cost. Caltrans and the MTC will select the final design, thus determining the actual replacement cost.

Figure 1

Toll Bridge Seismic Retrofit And Replacement Cost

(In Millions)	
Retrofit	
Bay Bridge (west span)	$553
Richmond-San Rafael	329
San Mateo-Hayward	127
Benicia-Martinez	101
San Diego-Coronado	95
Carquinez (east span)	83
Vincent Thomas	45
Replacement	
Bay Bridge (east span)	1,205[a]
Carquinez (west span)	—[b]
Work Not Needed	
Antioch	—
Dumbarton	—
Total Cost	**$2,538**

[a] Basic concrete viaduct design.
[b] $320 million cost not included in retrofit program.

Funding Package Provides $2.5 Billion

Figure 2 (see page 6) summarizes the $2.5 billion funding package. Specifically, Proposition 192 bond revenues will provide $790 million (31 percent of the total), $875 million (34 percent) will come from state transportation funds, and *at least* $875 million (34 percent) will come from toll bridge revenues.

Proposition 192 Bond Funds. Proposition 192, passed in 1996, authorized a $2 billion bond issue and earmarked $650 million for toll bridge seismic retrofit, with the remaining $1.35 billion for retrofit of highway bridges and overpasses. However, highway bridge retrofit will not require the full $1.35 billion, and $140 million in "surplus" funds will be used for toll bridge retrofit. This brings the total contribution from Proposition 192 revenues to $790 million. The State Treasurer will issue the bonds when cash is needed, and the bonds will be repaid over 20 or 30 years from General Fund revenues (primarily state sales and income tax revenue).

State Transportation Funds. State transportation funds will contribute $875 million, of which $745 million will come from the State Highway Account (primarily gas tax revenue), as follows:

- $370 million from the State-Local Transportation Partnership Program, from program savings and the elimination of the final year of the program (1999-00).

- $300 million from project cost savings that would otherwise be available for new projects in the 1998 State Transportation Improvement Program.

- $75 million from the Transportation System Management program by reducing future expenditures.

In addition, the state will provide $130 million from the Transportation Planning and Development Account by reducing expenditures on the Transit Capital Improvement (TCI) program. The TCI program provides state funds for transit vehicle acquisition, facility improvement, and other capital expenditures by local transit agencies.

Bridge Tolls. Bridge users will contribute at least $875 million from bridge toll revenues, as follows:

- $15 million from toll revenues from the Vincent Thomas Bridge.

- $33 million from toll revenues from the San Diego-Coronado Bridge.

- At least $827 million in toll revenues from the seven state-owned toll bridges in the San Francisco Bay Area (excluding the Golden Gate Bridge, which is not owned by the state).

Revenues from the existing tolls on the Vincent Thomas and San Diego-Coronado Bridges, combined with current account reserves, will be sufficient to fund each bridge's contribution to retrofit costs. The funding package also includes a $1 toll surcharge on Bay Area toll bridges (beginning January 1, 1998) in order to generate at least $827 million for retrofit. The surcharge applies to all state-owned toll bridges in the Bay Area, including the two that do not require retrofit (the Antioch and Dumbarton Bridges) but excluding the Golden Gate Bridge. The toll surcharge will be removed when it has generated $827 million, which is projected to take approximately seven years. However, the surcharge can remain in place for up to 10 years if the bridge design includes amenities such as an overhead cable suspension, a bicycle lane, or improvements to

Figure 2

Source of Funds for Toll Bridge Seismic Retrofit

(In Millions)

Proposition 192 Bond Funds	
Dedicated toll bridge retrofit funds	$650
"Surplus" funds	140
	($790)
State Funds	
State-Local Partnership	$370
Project cost savings	300
Traffic Systems Management	75
Transit Capital Improvement	130
	($875)
Toll Bridge Revenues	
Vincent Thomas Bridge	$15
San Diego-Coronado Bridge	33
San Francisco Bay Area bridges	827
	($875)
Total	**$2,540**

the Transbay Terminal. Toll surcharge funds will pay the full additional cost of any such amenities on the new Bay Bridge east span.

Program to Conclude in 2004-05. With the funding package in place, the toll bridge retrofit program can now proceed to construction. Caltrans anticipates awarding most retrofit construction contracts in 1997 and 1998. Most retrofit construction is scheduled to be completed by 2000; however, retrofit of the west span of the Bay Bridge will extend through 2003. Replacement of the Bay Bridge east span will take even longer; Caltrans estimates completion in 2004-05.

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Child Abuse and Neglect in California (January 1996). This report presents a variety of information on child abuse and neglect in California and the child welfare services program designed to address these problems.

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California's Fiscal Outlook (November 1996). This report provides our projections of the state's General Fund condition for 1996-97 through 1998-99, including our independent assessment of the economy, demographics, revenues, and expenditures.

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Overview of the 1997-98 May Revision (May 19, 1997).

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